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## *Few Seniors Would Benefit*

# President's Prescription Drug Plan Falls Short

President Clinton has called on Congress to enact a series of changes to Medicare, including the creation of a prescription drug benefit. While the cost of the President's plan has grown dramatically — it will now tax working families $310 billion over the next 10 years — the actual benefit to seniors is less than meets the eye. In fact, ***most seniors would not benefit at all.*** Here's why Congress should reject the President's approach, and instead embrace comprehensive reforms that create a prescription drug benefit while securing Medicare for current and future retirees.

## PRESIDENT'S PRESCRIPTION DRUG PROPOSALS

The centerpiece of the President's Medicare legislation is a new, voluntary Part D drug benefit. Seniors who sign up for Part D would receive, once the program is fully phased in, a subsidy equal to 50 percent of their drug costs up to $4,000. Drug costs above $4,000 would be fully covered by Medicare. Moreover, seniors would have access to discount drug prices through privately-run, government-contracted pharmacy benefit management companies, or PBMs.

The Congressional Budget Office estimates this proposal, along with the President's other proposed changes to Medicare, would cost $310 billion over the next 10 years.

### Who Benefits and Who Does Not?

Although it sounds extremely generous, the dirty little secret of the President's drug plan is that most seniors would fail to get a benefit.

The CBO estimates the Part D premiums would start at $281 in 2002 and rise to $662 by 2010. (These premiums could be higher, since they are calibrated to cover half of Medicare's costs.) Assuming these CBO estimates are accurate, the break-even point for a participant in the President's drug benefit is $562 in 2002. That is, for seniors with out-of-pocket drug costs less than $562, joining Medicare Part D *will cost them more* than buying their prescription drugs out of pocket!

The problem is, *most seniors spend less than $562* on prescription drugs. According to the National Academy of Social Insurance, seven out of ten seniors spend less than $500 on drugs each year. These Medicare participants are better off avoiding the President's plan.

Moreover, for those seniors with prescription drug costs exceeding $562, many already have coverage. The Kaiser Family Foundation estimates that nearly seven out of ten Medicare beneficiaries have some form of drug coverage through employer-sponsored plans, Medicaid, Medicare HMOs, or Medigap. Meanwhile, 2.4 million of those seniors without drug coverage have incomes exceeding 300 percent of the federal poverty level.

The President's Medicare proposal makes no distinction between wealthy and poor seniors, those with drug coverage and those without. It would transfer $310 billion from working families to finance a prescription drug plan that benefits just a small minority of seniors.

As Robert Pear wrote in the *New York Times* earlier this year, "Taken together, the studies [published in *Health Affairs*] suggested that Mr. Clinton was right to identify prescription drug costs as a major burden for the elderly, but that his proposal was not necessarily the most effective way to deliver those benefits and cost controls" [*NYT*, 3/7/00]. A more targeted approach adopted as part of a comprehensive Medicare reform plan would be a better fit.

## Phony Trust Fund Transfers Paper Over the Costs

The President attempts to paper over the extraordinary cost of his benefit by transferring general revenues in the Medicare Part A trust fund. This little ruse shouldn't fool anyone. As the President's own budget admits, "The existence of large trust fund balances . . . does not, by itself, have any impact on the Government's ability to pay benefits." With or without phony trust fund transfers, working American families will be called upon to pay for the benefits promised by President Clinton. Accounting gimmicks and obfuscation will not change that.

## Compensating Employers for Continuing to Do What They Now Do

The President recognizes that most seniors— seven out of ten — already have a prescription drug benefit. This recognition takes the form of subsidies targeted at employers that already finance drug benefits for seniors. The President literally would pay them not to drop their coverage. Under his plan, Medicare would pay employers 67 percent of the costs Medicare would have incurred if the seniors had enrolled in Part D instead. This subsidy will cost working families billions every year to compensate employers for offering drug benefits they already provide.

## President Would Limit Seniors' Choice

The President's plan also needlessly restricts choice among Part D participants. Seniors who enroll in Medicare Part D would be required to purchase their prescription drugs through pharmacy benefit management companies. Under Clinton's approach, however, each region of the country would get just one PBM that would contract with drug manufacturers to buy the drugs seniors need.

Creating a single, monopoly drug purchaser has obvious disadvantages. Seniors who have special drug needs would have no alternatives — if their regional PBM fails to carry their prescription, they are out of luck. Moreover, absent competing PBMs, expensive government oversight is necessary to ensure seniors get a fair deal from the monopoly operator.

A competing PBM model, such as Senator Hagel has proposed, is much more likely to benefit seniors. As Patricia Danzon observed in *Health Affairs* earlier this year, "...competing PBMs would be forced to consider patient satisfaction." Imagine that.

# PRESIDENT PROPOSES ADDITIONAL MEDICARE CHANGES

In addition to the new drug benefit, the President also has offered a series of changes to the existing Medicare system that deserve closer scrutiny. As the following analysis shows, these proposals would decrease choice for seniors and increase their dissatisfaction with the program.

## Moving Toward Managed Medi-Care

President Clinton and congressional Democrats have been extremely vocal criticizing the shortcomings of managed care. Many of the reforms in the President's plan, however, have the effect of turning Medicare into a giant, government-run HMO. The President proposes to:

- Create a Preferred-Provider network;
- Contract with physician "gatekeepers" to oversee the treatment of seniors; and
- Establish disease management authorities to oversee treatment of specific diseases.

If these reforms sound like managed care proposals, that's because they are. The President's plan would move Medicare toward the very same managed care system his party has been attacking in the private sector.

## Medicare Minus the Choice

In 1997 Congress created Medicare+Choice as an alternative to traditional Medicare that allows seniors to sign up with competing health plans. These plans were envisioned to compete with traditional fee-for-service Medicare on the basis of both price and benefits. Seniors would sign up for the plan that offered the benefits they needed at a price they could afford. That was the plan, anyway.

Massive amounts of red tape and passive-aggressive opposition by the Clinton Administration and HCFA, however, have hamstrung whatever benefits Medicare+Choice might have offered seniors. According to a study by the law firm Shaw-Pittman, Medicare+Choice is "foundering" because of dramatic payment reductions, increased regulatory costs, and "a constantly expanding set of administrative and other obligations" faced by providers. Most observers agree that Medicare+Choice is on the ropes. The President's Medicare plan would finish the job.

Buried in his legislation is a provision that would prohibit Medicare+Choice plans from offering benefits that vary from standard Medicare. Currently, Medicare+Choice plans can attract seniors by offering benefits not covered under traditional Medicare, such as prescription drug coverage or eyeglasses. The President's bill stops this practice. It literally takes the "choice" out of Medicare+Choice.

## Moving Away From Patient Rights

At the same time the President is joining with congressional Democrats to expand patients' ability to sue their HMO, their employer, and anyone else associated with their health plan, the President's Medicare proposal explicitly prohibits anyone — seniors, taxpayers, providers — from challenging the Administration on parts of his plan in the courts. Under the President's legislation, the following aspects of his Medicare reforms are <u>not</u> subject to judicial review:

- Implementation;
- Participation Standards;
- Denial of Services;
- Patient Eligibility;
- Non-Competitive Contract Awards;
- Payment Rates; and
- Cost Sharing.

The President supports lawsuits when private health care providers and employers are the target. When the target is Medicare, however, the President advocates blocking access to the courts.

# PRESIDENT'S PLANS: BAD PRESCRIPTION FOR MEDICARE

Taken as a whole, the President's Medicare plan is a bad prescription for seniors. It offers needlessly expensive benefits, yet it fails to provide meaningful assistance to a majority of seniors. Worse, it moves traditional Medicare in exactly the wrong direction, away from choice and flexibility and toward the familiar "one-size-fits-all" approach that leaves so many dissatisfied.

Last year the National Bipartisan Commission on the Future of Medicare released its final report entitled "Building a Better Medicare for Today and Tomorrow." The report is a comprehensive look at all the issues facing Medicare, from prescription drug coverage to long-term solvency. President Clinton sabotaged that report and the Commission's efforts. He turned his back on a comprehensive approach to addressing Medicare. What he embraced, instead, is a nightmare of costs and complexity that few in Congress are willing to endorse.

Congress should reject the President's approach, and move instead toward Medicare reforms that offer seniors increased choices, including prescription drugs, while securing Medicare's solvency for both today and tomorrow.

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